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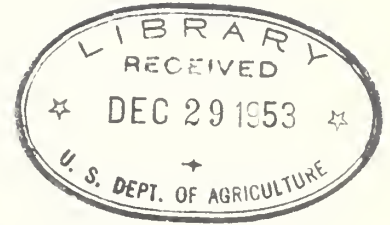
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REPORT OF SPECIAL AUDIT  
OF  
COMMODITY CREDIT CORPORATION  
as of January 31, 1953  
by order of  
THE SECRETARY OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE  
Production and Marketing Administration  
Office of Audit  
Washington, D. C.



REPORT OF SPECIAL AUDIT  
OF  
COMMODITY CREDIT CORPORATION  
as of January 31, 1953  
by order of  
THE SECRETARY OF AGRICULTURE



C O N T E N T S

Comptroller General's Statement of Opinion

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UNITED STATES DEPARTMENT OF AGRICULTURE  
PRODUCTION AND MARKETING ADMINISTRATION  
OFFICE OF AUDIT







B-48122

COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON

August 3, 1953

The Honorable  
The Secretary of Agriculture

My dear Mr. Secretary:

With reference to my letter to you dated January 26, 1953, and your reply of January 28, 1953, both of which related to an audit of certain activities of your Department as of January 31, 1953, the General Accounting Office has completed its review and evaluation of the audit of Commodity Credit Corporation. This audit was made by Office of Audit, Production and Marketing Administration. In accordance with the arrangements agreed upon, our representatives participated in the preliminary planning of the audit programs, reviewed the programs after they were developed, and reviewed on a test basis the audit work papers and reports after the planned work had been completed.

In my letter dated January 26, 1953, I emphasized some of the inherent difficulties which would be encountered by any audit organization attempting verification of CCC financial statements as of one given date. During the planning and conduct of the audit the anticipated difficulties were encountered, particularly in the following areas.

1. The Chief Auditor, Office of Audit, decided, with our concurrence, that it would not be practical to attempt to confirm the balances of individual loans by direct correspondence with individual farmers.

2. The market prices as of January 31, 1953, for most commodities held as loan collateral were lower than the values at which the loans were recorded. Although contrary to its stated policy, no reserve was provided for estimated losses to be sustained on ultimate disposition of commodities to be acquired in settlement of loans except for tobacco, for which a reserve of \$3,565,000 was provided. The Corporation did not provide reserves for the loans on other commodities because they were current loans which had not yet expired and there was no practical way of determining the quantities and realizable prices of collateral which would be acquired by CCC at maturity dates of the loans. Since such information was not available, the Office of Audit did not make estimates of the losses which might be incurred in the ultimate disposition of commodities which may be acquired in the settlement of outstanding loans.

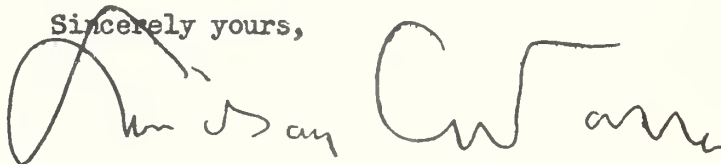
3. The inventories of corn stored in CCC-owned bins are recorded on a weight basis, and generally the records are not adjusted for quan-



tity differences until the bin sites are completely emptied. Because it was not feasible to test inventory quantities by weighing the corn in the bins, the Office of Audit made its tests of quantities by measuring the bins (height of grain in some of the bins was determined by tapping the outside of the bins). In determining whether the differences in quantity between the inventory records of corn stored and the measured quantities were reasonable, the Office of Audit used a tolerance factor of 5 percent as an allowance for differences due to pack, measurement inaccuracies, and variation from standard weights per bushel. At bin sites containing 30 percent of the quantities measured, differences in excess of 5 percent were found. The differences in these cases averaged 6.5 percent of the total quantity of corn originally received at the sites. These cases have been referred to the State PMA offices for determination as to whether shortages existed. The Office of Audit did not attempt to determine the grade and quality of stored grain, but did look for out-of-condition grain at the bin sites examined.

In our opinion, based upon the work done by us as described in the first paragraph of this letter, the audit made by the Office of Audit included all audit procedures practicable in the circumstances. The omission of certain generally accepted audit procedures as well as the absence of any estimate by the Corporation of losses to be realized in disposing of loan collateral to be acquired (which is a deviation from stated policy), are commented upon in the text of the audit report. We believe that these comments together with the statement of financial condition of CCC as of January 31, 1953, discloses adequately the financial condition of the Corporation as of that date in terms of your audit objectives which, as I understand them, are not primarily concerned with valuation of assets, but rather asset costs and the stewardship of management in controlling and disposing of assets and liabilities.

Sincerely yours,

A large, stylized handwritten signature in dark ink, likely belonging to the Comptroller General of the United States.

Comptroller General  
of the United States



UNITED STATES DEPARTMENT OF AGRICULTURE  
Production and Marketing Administration  
Washington, D. C.

July 6, 1953

The Honorable  
The Secretary of Agriculture

Dear Mr. Secretary:

In accordance with your request, we have examined the Statement of Financial Condition of the Commodity Credit Corporation as of January 31, 1953, for the purpose of determining whether it fairly presents the assets and liabilities of the Corporation as of that date.

We wish to make the following comments on the scope of our audit and findings on the major items:

COMMENTS

I STATEMENT OF FINANCIAL CONDITION

The Statement of Financial Condition, Exhibit A, page 1, was prepared from the accounts and other records of the Corporation and is in agreement with the statement submitted by the Controller of the Corporation. The exceptions disclosed by the audit were not sufficiently material to justify making any changes to that statement. The notes on the Statement of Financial Condition on Exhibit A, pages 2, 3 and 4 are those of the Controller. The supporting schedules which are included in the Controller's report have been excluded from this report. Special closing instructions as of January 31, 1953 were issued by the Controller, CCC, similar to the regular fiscal year end closing instructions.

II LOANS RECEIVABLE

The following is a summary of loans outstanding as of January 31, 1953:





<u>Commodity</u>	<u>Loans Outstanding</u>
Wheat	\$ 809,447,094
Corn	316,238,379
Cotton, Upland	250,356,587
Tobacco	266,411,074
Wool	47,262,385
Soybeans	28,745,056
Seeds (various)	22,463,520
Flaxseed	13,332,092
Peanuts	11,147,760
Oats	11,065,239
Rosin	11,683,460
Beans, Dry Edible	10,713,996
Other (9 commodities)	14,194,672
Total	\$1,813,061,314
Less: Reserve for Losses	3,565,000
Commodity Loans (Net)	<u>\$1,809,496,314</u>

During the course of our verification of loans, we visited 299 county offices in which over 519 million dollars or 35% of the total amount of loans were recorded. These county offices were selected from 45 states. In many of the counties visited, we found that some loans made prior to February 1, 1953 were not recorded until subsequent to that date. The delays were caused principally by the failure of certain lending agencies to promptly report their loans to the county offices. Because of the large number of county offices and lending agencies involved, it was not practicable to determine the extent of this lag. On the basis of the figures reported by the Controller, CCC, \$14,057,876 of 1952 crop wheat loans were recorded during February 1953 and \$1,755,844 were recorded during March and April 1953. Although these loans were required to be approved by January 31, 1953, it was permissible for them to be disbursed as late as February 15, 1953. We did not determine what part of the loans disbursed in February represented lag in reporting; it appears however that it would not be significant when compared with the total 1952 wheat loans of \$844,748,227 recorded as of January 31, 1953 and the total of 1952 loans for all commodities of \$1,754,140,988. A similar analysis of the recorded amounts of loans for other commodities for which the period of availability expired January 31, 1953, indicated lags in recording of much smaller amounts.

Although the market prices as of January 31, 1953 for most commodities held as loan collateral were lower than the values at which the loans were recorded, no reserve for losses was provided for the ultimate disposition of the commodities to be acquired in settlement of the loans





except for tobacco, for which a reserve of \$3,565,000 was provided. The Corporation found it advisable to provide a reserve for losses on tobacco because the tobacco which is held as collateral was grown during crop years 1946 through 1951 and the loans will be carried until all of the collateral is sold at which time any loss on disposition of all the collateral under a loan will be assumed by the Corporation. No reserves were provided for the remaining loans because they were current loans with definite maturity dates which had not yet expired and there was no practical way of determining the quantities and realizable prices of collateral which would be acquired by CCC at maturity dates of the loans. We did not estimate the losses which might be incurred in the ultimate disposition of commodities which may be acquired in the settlement of outstanding loans.

We confirmed the existence of the tobacco held as loan collateral and tobacco owned by CCC by direct correspondence, except for the portion which was in process of redrying for which warehouse receipts had not yet been issued.

Commodities held as loan collateral in selected commercial warehouses were physically verified by us during our physical verification of CCC owned commodities stored in those warehouses. See page 7.

We confirmed the outstanding wool loans with wool handlers and examined the loan documents in the FMA Commodity Offices.

We physically verified farm stored loan collateral at 575 farms located in over 250 counties selected from 45 states. We found 13 cases involving apparent conversions totaling 2,201 bushels of wheat and 3,916 bushels of corn. These cases were located in only 6 states and have been reported to the appropriate officials for necessary action. We did not consider it practicable to confirm outstanding loans with borrowers.

### III COMMODITY INVENTORIES

The following is a summary of the commodities owned by the Corporation as of January 31, 1953 showing the estimated amounts provided in the Reserve for Losses:



	Value (Cost)	Estimated Losses (See page 8)
Price support:		
Corn	\$ 427,481,551	\$ 53,740,000
Wheat	342,856,876	34,654,000
Cottonseed Oil, Refined	74,219,080	2,451,000
Linseed Oil	54,713,547	27,713,000
Cotton, Upland	32,378,475	3,473,000
Cotton Linters	27,991,754	10,599,000
Butter	29,642,448	—
Seeds (various)	31,922,010	14,504,000
Beans, Dry Edible	15,910,849	4,705,000
Peanuts	12,552,704	4,311,000
Rosin	11,963,467	158,000
Milk, Dried	10,385,504	7,342,000
Other (12 commodities)	20,220,646	1,350,000
	<u>\$1,092,238,911</u>	<u>\$165,000,000</u>

Supply and foreign purchase:

Supply:

Linseed Oil	55,947,000	—
Other (14 commodities)	11,976,658	—

Foreign purchase:

Kenaf seed and fiber	992,959	—
	<u>\$ 68,916,617</u>	—
Total	<u>\$1,161,155,528</u>	<u>\$165,000,000</u>

Commodities under contract to purchase on which it is estimated losses will be sustained upon disposition of the inventories to be acquired are summarized:

	Value (Cost)	Estimated Losses
Cotton Linters, 1951	\$ 80,287	\$ 33,000
Cotton Linters, 1952	6,248,681	1,894,000
Cottonseed Oil, Refined 1951	648,546	—
Cottonseed Oil, Refined 1952	33,206,689	317,000
Milk, Dried, 1952	1,790,673	1,264,000
	<u>\$41,974,876</u>	<u>\$3,508,000</u>



Outstanding purchase agreements with producers under which commodities may be delivered under price-support programs are not recorded in the accounts. See Controller's notes on Statement of Financial Condition, Exhibit A, page 2.

A Commodities Stored in CCC Owned Bins - The following is a summary of the recorded value of commodities stored in CCC owned grain bins, included above:

Corn	(237,065,000 bushels)	\$379,968,011
Wheat	( 3,755,000 bushels)	10,078,004
Other	( 9 commodities)	<u>2,890,709</u>
		<u>\$392,936,724</u>

These commodities were stored in over 122,000 bins at over 3,000 leased bin sites located largely in 10 corn producing states. We physically examined 15,533 grain bins at 394 bin sites selected from the states in which commodities were stored and measured the commodities stored in them consisting of 42,630,000 bushels or 17.7% of the total quantities of commodities stored in CCC owned bins. A visual inspection and measurement was made of the grain in almost all of the bins at the bin sites visited. We determined the contents of a selected number of bins by tapping the outside of the bins and by measurement.

At some of the bin sites, we found that the differences between the inventory records and the measured quantities were in excess of allowances for pack, test weight and accuracy of measurement which could account for as much as 5% of the inventory balance at a bin site.

149,655,000 bushels of corn or 63% of the total corn, were stored in the states of Iowa, Illinois, Indiana and Ohio in the Chicago FMA Commodity Office area. We physically verified 28,453,000 bushels of corn in this area, of which 14,484,000 bushels were stored at bin sites revealing quantity differences which appeared to be reasonable. The remaining 13,969,000 bushels were stored at bin sites where our examination revealed quantity differences averaging 8.7% of the inventory balances and 6.5% of total quantity handled, before allowing for pack, test weight, loss in handling and deterioration. These cases have been referred to the State FMA Offices involved for determination whether shortages existed after giving consideration to the aforementioned factors, the accuracy of the records and allowance for accuracy of measurement. In the Kansas City and Minneapolis FMA Commodity Office areas where 87,410,000 bushels of corn were stored, we physically inventoried 12,568,000 bushels. The quantity differences in these two areas appeared to be reasonable except for one bin site at which 272,000 bushels were stored. In this case, the quantity difference before allowance for pack, test weight and other factors was 19,000 bushels or 7% of the inventory balance and 6.8% of the total quantity handled. This case was also referred to the State FMA Office involved for necessary action.





Generally, the inventory records are not adjusted to agree with physical inventories until all grain at a bin site has been shipped and the site has been emptied. Some adjustments have been made to the records for differences between the inventory records and quantities on hand where the reasons for the differences have definitely been determined. No adjustments are made on the basis of physical inventories based on measurement in view of the difficulty of accurately determining quantities on hand on this basis.

A summary of adjustments for completely emptied bin sites for the period July 1, 1951 to January 31, 1953, revealed that the average quantitative loss for handling over 50,000,000 bushels of corn from 721 bin sites in the three areas computed on the basis of weights was 1.5% after taking into consideration deterioration on a small quantity of corn. Losses from individual bin sites ranged from less than 1% to over 5% of the grain handled. A part of this loss could have resulted from loss in moisture through drying.

1 Quality - We did not attempt to determine the grade and quality of the commodities stored at the bin sites except that during our physical verifications we looked for out-of-condition grain. However, according to latest available reports prepared by the State FMA Offices as of October 31, 1952, on the basis of samples taken and graded, the corn on hand as of that date was classified as follows:

<u>Grade</u>	<u>Bushels</u>	<u>% of Total</u>
No. 1	102,862,674	43.5
No. 2	72,759,889	30.8
No. 3	25,966,688	11.0
No. 4	14,043,728	5.9
No. 5	12,604,743	5.3
Sample	8,349,027	3.5
	<u>236,586,749</u>	<u>100.0</u>

Practically all of this corn was produced during the 1948 and 1949 crop years.

B Commodities Stored in Commercial Warehouses - We confirmed by correspondence or subsequent disposition, the existence of about 95% of CCC owned commodities stored in commercial warehouses. In addition, we physically verified CCC owned commodity inventories stored in selected warehouses to the extent indicated below. We have excluded from our selection of warehouses, those licensed under the U. S. Warehouse Act, under the administration of the Transportation and Warehousing Branch FMA. For the purpose of this audit, we relied upon the periodic physical verifications performed by that Branch.





1 Bulk Grain Stored in Commercial Warehouses - The commodities included in this category are wheat, corn, cotton linters, seeds, dry edible beans, barley, cottonseed, cottonseed meal, flaxseed, grain sorghums, oats, rye, and soybeans.

1	Stored in all warehouses	\$449,997,378
2	Less: Stored in warehouses licensed under U. S. Warehouse Act, Interstate Commerce Commission and Port Elevators	<u>132,327,370</u>
3	Stored in remaining warehouses	\$317,670,008
4	Physically verified by Office of Audit	\$ 91,432,098
5	Percentage item 4 of item 3	29%

We performed physical verifications in 244 warehouses or 9% of about 2,600 non-federally licensed warehouses. In 22 cases, we found that the quantities on hand were less than the quantities shown on the warehouseman's inventory records. These differences, which are based on quantities computed on the basis of measurement are subject to adjustment based upon weights upon loading out of the grain. These 22 unadjusted differences involved bulk grain valued at about \$461,000 and were located in 10 states. They were reported to the appropriate officials for investigation and final determination. In 5 cases, investigations have been started. The remaining cases are receiving consideration. In view of the bonding requirements and financial condition of the warehousemen involved in these quantity deficiencies, it appears that any losses which may result would not materially affect the statement of financial condition as of January 31, 1953, therefore, no adjustments were made to this statement. These results are based on conditions disclosed at warehouses which were generally selected because of questionable performance such as failure to promptly fill loading orders or failure to reply to our confirmation requests, and would therefore not be representative of conditions at all warehouses.

2 Peanuts - The inventory on hand as of January 31, 1953 consisted of 97,047,854 pounds of peanuts valued at \$12,552,705 less a reserve of \$4,311,000 for estimated losses on its ultimate disposition. These peanuts are the Virginia-type farmer's stock from the 1951 crop. We physically verified 30% of this amount and disclosed no quantity deficiencies. However, there were signs of rat and weevil damage in some instances. Confirmations were requested on the remainder of the inventory and no exceptions were disclosed.

3 Cottonseed Oil, Refined - The inventory on hand as of January 31, 1953 consisted of 407,312,474 pounds valued at \$74,219,080 less a reserve of \$2,451,000 for estimated losses on its ultimate disposition. We confirmed this inventory by correspondence with the warehousemen and physically verified 22% of the total inventory.



4 Linseed Oil - The inventory as of January 31, 1953 consisted of the following:

	<u>Pounds</u>	<u>Value (Cost)</u>
Price Support Program	189,631,148	\$ 54,713,547
Supply Program	<u>300,000,000</u>	<u>55,947,000</u>
	<u>489,631,148</u>	<u>\$110,660,547</u>

A reserve of \$27,713,000 has been provided for estimated losses on the ultimate disposition of the price support inventory valued at \$54,713,547. The 300,000,000 pounds in the supply program inventory are being held for national defense purposes, and will ultimately be disposed of at no loss to the Corporation.

We confirmed the existence of 98.7% of these inventories by correspondence with the warehousemen.

5 Upland Cotton - As of January 31, 1953 the inventory of Upland Cotton consisted of 235,560 bales valued at \$32,378,475 which were stored in 681 warehouses. Of this quantity, 33,925 bales were stored in 340 warehouses licensed under the U. S. Warehouse Act and the remaining 201,635 bales were stored in 341 non-federally licensed warehouses. We physically verified the cotton in 17 selected warehouses storing 13,180 bales or 6.5% of the quantity stored in non-federally licensed warehouses. We confirmed by correspondence, 99.4% of the total quantities stored in all warehouses. No material differences were disclosed.

6 Butter, Dried Milk and Cheese - A summary of the inventory values of these commodities as of January 31, 1953 and the percentages we confirmed and physically verified follows:

	<u>Inventory Balances</u>		<u>Percentages</u>	
	<u>Pounds</u>	<u>Value</u>	<u>Confirmed</u>	<u>Physically Verified</u>
Butter	44,088,093	\$29,642,448	93.6	21.8
Milk, Dried	59,251,961	10,385,504	86.9	8.1
Cheese	6,496,238	<u>2,595,603</u>	<u>75.7</u>	<u>18.0</u>
		\$42,623,555	90.9	18.4

No exceptions were disclosed.

#### IV VALUATION RESERVES

The amount established in the accounts for valuation reserves against commodity inventories and commodities under contract to purchase reflect the Corporation's estimated loss on ultimate disposition of the respective



assets, based on estimated realizable values. See pages 2 and 3 for comments on reserve for losses on loans.

The total cost value of price support commodities owned by CCC as of January 31, 1953 is \$1,092,238,911 for which estimated reserves for losses totaling \$165,000,000 are provided, or 15%. In addition, reserves amounting to \$3,508,000 have been provided for estimated losses on the disposition of commodities to be acquired under contract to purchase valued at \$41,974,876. See page 4. No reserve for losses was provided for the inventory of butter consisting of 44,088,093 pounds valued at \$29,642,448 because it was expected that it would be sold at cost under clause 2 of Section 32, Public Law 320, 74th Congress, approved August 24, 1935, as amended, for distribution to non-profit school lunch programs and other eligible outlets. No provision for losses was made on the disposition of the commodities acquired under the supply and foreign purchase programs because they are generally acquired under terms which provide that they be disposed of at no loss to the Corporation.

The reserve for losses on corn of \$53,740,000 includes a provision of \$3,385,000 for estimated quantitative loss for shrinkage of corn stored in CCC owned bins after taking into consideration deterioration on a small quantity of such corn. This represents 1% of the value of the corn stored in those bins as of January 31, 1953. Previous reserves for losses have not included such a provision. However, the amount provided for this factor appears to be low on the basis of the past 19 months experience which indicates that such losses have averaged 1.5% of the total quantity received in the bins with individual state averages ranging from .52 of 1% to 2.65%. See page 6. On this basis, the reserve for losses on corn would be understated by about \$2,500,000.

We have reviewed the methods followed by the various branches in the development of the estimated reserves for losses on the various commodities and except for the aforementioned comment, the amounts provided for have been developed in accordance with the present policy of the Corporation and appear to be reasonable on the basis of the information available at the time the valuation reserve estimates were made.

#### V ACCOUNTS AND NOTES RECEIVABLE

The following accounts and notes receivables were recorded as of January 31, 1953:

Due from Government Agencies	\$ 71,105,696
Due under International Wheat Agreement Act of 1949	243,600,744
Due under Defense Production Act of 1950	2,687,978
Due from Foreign Governments	778,671
Due from Producers	2,624,738
Due from Others	27,554,669
	<hr/>
	\$348,352,496
Less: Reserve for Losses	10,118,711
	<hr/>
	\$338,233,785





We tested the accounting records and supporting documentation, requested confirmation of selected items and analyzed the individual accounts according to age. The reserve for losses of \$10,118,711 is applicable to the amounts recorded as due from producers and others totaling \$30,179,407. We reviewed the procedures followed by the operating officials in the establishment of this reserve and found them to be adequate.

## VI SURPLUS

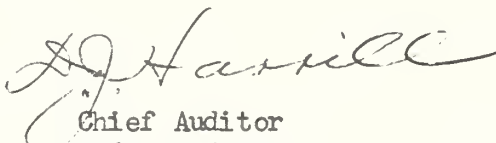
The Treasury Department has completed the appraisal of the assets and liabilities of the corporation as of June 30, 1952 and determined the capital impairment to be \$96,205,161. This amount has been included in the Department of Agriculture requested appropriations for the fiscal year 1954. A similar appraisal will be made as of June 30, 1953.

## VII SCOPE OF AUDIT AND OPINION

Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary and practicable in the circumstances and appropriate in view of the effectiveness of the system of internal control. The General Accounting Office participated in the planning and development of the audit program and reviewed our audit working papers after the work was completed.

In my opinion, subject to the foregoing comments, the accompanying Statement of Financial Condition presents fairly the financial position of the Commodity Credit Corporation at January 31, 1953, in accordance with the accounting policies and practices of the Corporation, consistently applied.

Sincerely yours,

  
Chief Auditor  
Office of Audit





Production and Marketing Administration  
Commodity Credit Corporation

Exhibit A  
Page 1

STATEMENT OF FINANCIAL CONDITION  
AS OF JANUARY 31, 1953

ASSETS

Cash.....		\$ 13,756,637
Loans:		
Commodity Loans Held by CCC.....	\$ 968,447,779	
Commodity Loans Held by Lending Agencies....	844,613,535	
	<u>1,813,061,314</u>	
Less: Reserve for Losses.....	3,565,000	
Commodity Loans (Net).....		1,809,496,314
Storage Facility and Equipment Loans Held by CCC.....	20,448,694	
Storage Facility and Equipment Loans Held by Lending Agencies.....	5,383,254	25,831,948
Commodity Inventories (Cost).....	1,161,155,528	
Less: Reserve for Losses.....	165,000,000	996,155,528
Commodities Under Contract to Purchase.....	41,974,876	
Less: Reserve for Losses.....	3,508,000	38,466,876
Accounts and Notes Receivable.....	348,352,496	
Less: Reserve for Losses.....	10,118,711	338,233,785
Accrued Assets.....		1,480,311
Fixed Assets (Net).....		99,494,359
Other Assets.....		1,341,264
		<u>\$3,324,257,022</u>

LIABILITIES

Borrowings:		
From United States Treasury.....	\$2,401,000,000	
From Banks.....	11,631	\$2,401,011,631
Obligation to Purchase Commodity Loans Held by Lending Agencies.....		844,613,535
Obligation for Guaranty of Storage Facility and Equip. Loans Held by Lending Agencies....		5,383,254
Trust and Deposit Liabilities.....		40,067,116
Accounts Payable.....		73,102,346
Accrued Liabilities.....		72,087,836
Deferred Income.....		1,013,614
Other Liabilities.....		529,930
Reserve for Producers' Equity - Disposition of Price Support Inventories.....		817,617
Capital Stock Held by U. S. Government.....		100,000,000
Surplus (or Deficit*).....		214,369,857*
		<u>\$3,324,257,022</u>

See notes prepared by the Controller, CCC  
appended to and made a part of this statement.



NOTES ON STATEMENT OF FINANCIAL CONDITION  
(prepared by Controller, CCC)

Loans Receivable

Loans receivable as reflected in the Statement of Financial Condition represent loans held by Commodity Credit Corporation or lending agencies as recorded in the accounts of the Corporation. Certain matured loans not submitted by lending agencies for purchase by the Corporation have been removed from the loan accounts. Approved commitments to make or guarantee loans on storage facilities with an aggregate capacity of 910,219 bushels amounted to \$273,949 as of January 31, 1953. There were no commitments to make or guarantee equipment loans. These commitments are not reflected in the accounts.

Commodity Inventories

Inventories are recorded at cost, which includes storage, handling, transportation and accessorial expense. Due to the varied character of the many commodities (e.g., bulk grains, processed foods, etc.) included in the inventory and the related trade practices in storing and handling, cost is determined by the "first-in, first-out" method for some commodities and by the "average cost" or "Individual lot cost" method for other commodities. A consistent method for each commodity is followed from period to period. (See Accounting Policies and Practices of the Commodity Credit Corporation, June 30, 1952, page vii for further detail.) Inventory transactions are recorded on the basis of transfer of title. Firm contracts to purchase are reflected in the accounts for only those commodities on which it is estimated losses will be sustained upon disposition of the inventory to be acquired. Sales commitments are not reflected in the accounts but are considered in the establishment of valuation reserves. Outstanding purchase agreements with producers under which commodities may be delivered under price-support programs are not recorded in the accounts. Such purchase agreements outstanding on January 31, 1953, were as follows:



<u>Commodity</u>	<u>Quantity</u>	<u>Estimated Value at Average Support Price</u>	<u>Maturity</u>
1952 Crops:			
Wheat	61,973,502 Bushels	\$134,792,000	April 1953
Corn	8,777,561 Bushels	13,711,000	July 1953
Hay and Pasture Seed	39,740,000 Pounds	12,444,000	April 1953
Flaxseed	1,596,116 Bushels	5,912,000	April 1953
Soybeans	2,244,303 Bushels	5,745,000	May 1953
Beans, Dry Edible	647,427 Cwt.	5,316,000	April 1953
Oats	4,313,432 Bushels	3,218,000	April 1953
Barley	2,400,610 Bushels	2,797,000	April 1953
Grain Sorghum	425,652 Cwt.	959,000	March 1953
Peanuts, Farmers'			
Stock	7,587,300 Pounds	812,000	May 1953
Honey	5,060,551 Pounds	577,000	March 1953
Winter Cover			
Crop Seed	6,508,100 Pounds	543,000	January 1953
Rye	49,095 Bushels	66,000	April 1953
		<u>\$186,892,000</u>	

### Claims

Amounts due the Commodity Credit Corporation arising from claims that are definitely known or can reasonably be established are recorded currently in the accounts of the Corporation as accounts receivable. A reserve for losses is provided to cover amounts where collection is doubtful, as well as estimated reductions or adjustments in the liquidation of such claims. Amounts of claims of doubtful character and those on which adequate proof has not been established are not recorded as accounts receivable but are recorded for control purposes. It is estimated that such claims amounted to \$4,901,565 as of January 31, 1953.

Claims against the Corporation where the amounts are definitely known or can reasonably be established are recorded as accounts payable. Amounts of claims which are not considered valid by the Corporation are not reflected as accounts payable. Claims in this category were estimated at \$2,465,192 as of January 31, 1953.

### Valuation Reserves

The amount established in the accounts for valuation reserve against loans, commodity inventories, commodities under contract to purchase and accounts and notes receivable reflect the estimated loss on ultimate disposition of the respective assets, based on estimated realizable values. Valuation reserves are adjusted monthly to reflect (1) revised estimates of realizable values due to changing market prospects and all other known factors, (2) acquisition of additional items on which reserves are necessary, and (3) dispositions of items for which reserves are provided.





International Wheat Agreement Act of 1949

In addition to the amounts paid and accrued under the International Wheat Agreement, declarations of sales for which exporters of wheat and wheat flour have not submitted requests for export payment totalled \$13,056,409 as of January 31, 1953. The amount of these approved declarations represents a contingent liability of the Corporation to make such export payments upon fulfillment of all requirements. When payments are made on these declarations, a receivable for such amounts will be established under the classification "Due Under International Wheat Agreement Act of 1949".

Losses Through Physical Destruction Subsequent to Date of Statement

Subsequent to January 31, 1953, approximately 4,422,000 pounds of tobacco loan collateral stored in North Carolina were destroyed by fire. The destruction of this collateral will result in a loss to the Corporation of approximately \$2,666,000 to be recorded after January 31.

Storage Guaranty Agreements

In areas where storage facilities are inadequate, the Corporation has entered into storage agreements with certain cooperative associations and other commercial warehousemen guaranteeing use of 75 percent of the useable space of new storage capacity for a period of three years in completely new storage structures and for a period of two years in new additions to existing storage structures. Active agreements were outstanding on an approximate 50,700,000 bushel capacity as of January 31, 1953. Liabilities on these contracts which can be established with reasonable certainty are reflected in the accounts.

Surplus

Surplus, as reflected in the Statement of Financial Condition, represents the results of operations of the Corporation since its inception in 1933, (a) after the restoration (net) of capital by the U. S. Treasury in accordance with the Act of March 8, 1938, as amended, (b) after net price-support losses in the amount of \$500,000,000 have been charged to the Reserve for Post-War Price Support of Agriculture, and (c) after the recovery of certain specified losses from the Secretary of the Treasury under Public Law 389 and 393, 80th Congress. The deficit at June 30, 1952, as determined by appraisal in accordance with Act of March 1938, as amended, will be recovered from the U. S. Treasury.





## A P P E N D I X



COPY

DEPARTMENT OF AGRICULTURE  
WASHINGTON 25, D. C.

January 28, 1953

Hon. Lindsay C. Warren  
Comptroller General of the  
United States

Dear Mr. Warren:

Receipt is acknowledged of your letter of January 26, 1953, in which you confirm my understanding that it is impossible at this time for the General Accounting Office to perform the special audits of the Department's corporations and lending agencies as of January 31, 1953.

Careful consideration has been given to the alternative proposal contained in your letter. Under the circumstances, it appears desirable to proceed in accordance with that plan. The participation by members of your staff as specifically outlined in your letter will be appreciated. Also it is requested that you give consideration to the possibility of any additional audit methods or procedures in connection with your regular audit work for the fiscal year ended June 30, 1953 that might provide me with additional assurance concerning the financial condition of these agencies.

In order that detailed plans for the audits may be started immediately I have advised the head of each of the agencies affected that an audit will be made as of January 31, 1953, and each of the agency audit staffs will be prepared to cooperate to the fullest extent possible.

Attached for your information is a copy of a memorandum which I have released in the Department directing that all files and records be made available to your auditors and investigators, except those prohibited by statute or executive order. This memorandum has been issued in keeping with my intention that there shall be full cooperation between our two agencies.

Sincerely,

/s/ Ezra Taft Benson

Secretary

Attachment  
(Attachment omitted)



COPY

COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

January 26, 1953

Honorable Ezra Taft Benson  
Secretary of Agriculture

My dear Mr. Benson:

I have your letter of January 26, 1953 concerning an audit of certain activities of the Department to be made as of January 31, 1953.

I regret that the pressures upon the General Accounting Office resulting from statutory reporting requirements and other Congressional commitments, coupled with an acute shortage of qualified personnel, make it impossible for us to perform the audit you desire.

To completely satisfy the desires expressed in your letter with respect to verification of the financial statements of the various corporations and lending activities of the Department of Agriculture as of January 31, 1953 would involve audits of each of such activities comparable to the audits performed by the General Accounting Office as of June 30 of each year under the Government Corporation Control Act. Such audits would entail the expenditure of many hundreds of thousands of dollars and would require many months to perform.

In undertaking an audit along the lines which you propose, I feel it is only fair to point out and emphasize some of the difficulties which will be faced by your staff and would be faced by any audit organization:

1. The assets of Commodity Credit Corporation consist largely of loans on and inventories of farm commodities. The commodities involved are tremendous in quantity and are located all over the United States on farms, in warehouses, and other storage locations. The physical inspection work necessary to verify the existence and recorded quantities of commodities in storage under these circumstances is almost impossible to accomplish as of one given date. There is no counterpart in private industry for this type of situation.

2. Large amounts of the assets of Commodity Credit Corporation as well as Farmers Home Administration consist of loans to individual farmers. The standard method of verifying assets of this type is by direct correspondence with the debtors. Our experience in the past on such confirmation work has been that satisfactory replies of a type necessary to verify the account balances of such loans are almost impossible to obtain.



3. The production of financial statements as of one given date requires that all important transactions be cleanly cut off as of the date as of which the statements are made. In the case of Commodity Credit Corporation it is almost physically impossible to make a clean cut-off because of the number of transactions in process at widely separated locations throughout the country. Because of this, considerable time and effort would be required to try to reconcile the quantities determined by physical counts or confirmations with the amounts shown by accounting records.

4. Another factor to be considered in an undertaking of this nature, aside from its cost, is the disruption of the normal audit plans and programs now in process in the Department's various agencies. The carrying out of a plan aimed at a verification of assets and liabilities as of January 31 will tie up all the auditors in the Department for many weeks at the expense of falling behind in carrying out their regularly scheduled audit work.

I do believe, however, that the alternative procedure suggested below should go far to satisfy you of the integrity of the accounts and financial procedures of the business enterprises for whose operations you are now assuming responsibility. In this connection, I wish to point out that in carrying out our audits great reliance necessarily is placed upon the work done by the Department's own audit and investigative staffs. Based upon our experience we have found such reliance generally to be justified. In fact, a major criticism in this area has been that management officials have not always taken proper advantage of the findings reported to them by auditors and investigators.

In preliminary discussions, an alternative method of accomplishing your desired result was presented by our staff. In essence, the suggestion was made that the burden of performing the necessary audit verification work be assigned to the various internal audit organizations within the Department with participation by members of our staff to be provided in the form of guidance, review, and evaluation of the work planned and performed. Specifically the extent of participation by the General Accounting Office would be limited to:

1. Providing preliminary planning guidance and reviewing and evaluating audit programs developed by each agency's internal audit staff to meet your request for an audit as of January 31, 1953.

2. Reviewing and evaluating, on a test basis, audit work papers and reports in connection with such audit. Based upon this work, I will be pleased to furnish you at the completion of the audit an evaluation of the soundness and adequacy of the audit methods followed by the agency audit staffs.





Immediately upon being informed by you that you desire to proceed with the audits along the lines indicated in this letter, I will be glad to assign members of our staff to cooperate further with your staff.

Sincerely yours,

/s/ E. L. Fisher

Acting Comptroller General  
of the United States



DEPARTMENT OF AGRICULTURE  
WASHINGTON 25, D. C.

COPY

January 26, 1953

Hon. Lindsay C. Warren  
Comptroller General of the  
United States

Dear Mr. Warren:

In connection with my assumption of responsibility as Secretary of Agriculture, I requested the Department's Director of Finance to make arrangements for a General Accounting Office audit of the corporations and lending agencies of the Department as of the close of business January 31, 1953, including the following:

Commodity Credit Corporation  
Federal Intermediate Credit Banks  
Banks for Cooperatives  
Production Credit Corporations  
Federal Farm Mortgage Corporation  
Agricultural Marketing Revolving Fund  
Federal Crop Insurance Corporation  
Farmers Home Administration  
Rural Electrification Administration

Pursuant to my request, representatives of our respective offices have discussed this matter at considerable length, and I have been informed that because of manpower limitations and other demands upon your Office, including the necessity for meeting specific requirements of law for certain audit reports to the Congress, it will be impossible at this time for you to make these audits as of January 31, 1953. It is understood also that your representatives have suggested an alternative course of action which will provide for an audit to be made by audit staffs in the Department with participation by your Office.

It was my intention that the scope of these audits would be such as to provide an independent opinion that the financial statements of the corporations and lending agencies as of January 31, 1953, accurately reflect their assets and liabilities as of that date. While an independent audit by your organization would be preferred, I understand the conditions that make it impossible. Accordingly, I would appreciate information as to the nature of your alternative proposal, and the extent of participation by your Office in implementing it.

Hoping that mutually satisfactory arrangements can be agreed upon,  
I am

Sincerely,

/s/ Ezra Taft Benson

Secretary











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